

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Seattle (City) presents this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2003. This discussion and analysis focuses on significant financial issues, provides an overview of the City's financial activity, highlights significant changes in the City's financial position, and identifies material variances between the approved budget and actual spending.

The City encourages readers to consider the information presented here in conjunction with additional information provided in its letter of transmittal.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2003 the assets of the City of Seattle exceeded its liabilities by \$2.418 billion. Net assets invested in capital assets (net of depreciation and related debt) account for over 86.0 percent of this amount (\$2.080 billion). The remaining net assets of \$337.8 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$90.5 million (3.9 percent) during the fiscal year. The governmental net assets increased by \$84.9 million (5.6 percent) over the amount reported in 2002. Business-type net assets increased by \$5.5 million (0.7 percent). The business-type increase included net income for the Water Utility of \$16.9 million and the nonmajor funds of \$0.9 million, reduced by net losses of \$8.1 million for City Light Utility and \$4.2 million for the Drainage and Wastewater Utility.
- At the close of 2003 the City's governmental funds reported a combined ending fund balance of \$379.9 million, a decrease of \$155.9 million (29.1 percent). The fund balance of the General Fund increased \$9.5 million while the fund balance of the special revenue funds and the capital projects funds decreased by \$16.6 million and \$148.8 million respectively. The decreases were largely due to revenue reductions in the special revenue funds as well as the spend-down of cash in the capital projects funds as construction continued or was completed on major governmental projects such as the Municipal Civic Center and the Central Library. Approximately \$53.0 million (13.9 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2003 the unreserved fund balance for the General Fund was \$42.2 million or 8.8 percent of total General Fund expenditures of \$481.5 million. The General Fund's unreserved fund balance increased by approximately \$2.0 million from the prior year's amount of \$40.2 million, a 5.0 percent increase. This change is largely explained by reductions in spending due to 2003 staff reductions and other 2003 budget cuts.
- The City's total outstanding bonded debt decreased by \$132.4 million (3.7 percent) during the current fiscal year to \$3.492 billion. General obligation debt increased by \$6.9 million while revenue bonds and anticipation notes dropped by \$139.3 million. Key factors were a 2003 general obligation bond issue of \$60.9 million and redemptions of \$54.0 million. For the revenue bonds and anticipation notes, Light and Power had a net decrease of \$214.8 million which included the repayment of \$307.2 million of revenue anticipation notes; Water had a net increase of \$77.3 million with a new issue of \$271.3 million and redemptions of \$194.0 million. The remaining net decrease of \$1.8 million came from the redemption of \$4.4 million in Drainage and Wastewater bonds and the net increase of \$2.6 million in Solid Waste bonds.
- Revenues from local tax sources including property, sales, business excise, miscellaneous other taxes, penalties and interest on taxes, increased by \$7.0 million to \$666.7 million, a 1.1 percent increase over 2002. Unrestricted investment earnings dropped by 60.0 percent from \$38.4 million to \$15.5 million. The decrease was due to two factors - the continued low interest rates coupled with the reduction in cash balances in the capital projects funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City of Seattle's basic financial statements which consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad overview of the City's finances in a manner similar to that of private-sector business.

The **statement of net assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the City's financial health.

The **statement of activities** presents changes in net assets during the current reporting period. All changes to net assets are reported as of the date of the underlying event, rather than when cash is received or disbursed. Thus, some reported revenues and expenses result in cash flows in future periods. The statement of activities focuses on both the gross and net cost of the various activities of the City. The report summarizes and simplifies analysis of the revenues and expenses of the various City activities and the degree to which activities are subsidized by general revenues.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government activities, judicial activities, public safety, physical environment, transportation, economic environment, health and human services, and culture and recreation. The business-type activities of the City include an electric utility, a water utility, a waste disposal utility, a sewer and drainage utility, construction and land use operations, and parking facilities.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories of City funds: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining what financial resources are available in the near future to finance the City's programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison.

The City maintains numerous governmental funds that are organized according to type (general, special revenue, debt service, capital projects, and permanent funds). Information for the two major governmental funds is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances; information for the nonmajor funds is presented in the aggregate. The City's major governmental funds are the General Fund and the Low-Income Housing Fund. Information for each of the nonmajor governmental funds is provided in the combining statements in this report.

Proprietary funds account for services for which the City charges outside customers and internal City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** report the same functions presented as business-type activities in the government-wide financial statements. The proprietary funds financial statements provide separate information for the Seattle City Light Fund, Water Fund, and the Drainage and Wastewater Fund, which are considered to be major enterprise funds. Information for nonmajor enterprise funds is presented in the aggregate. Information for each of the nonmajor enterprise funds is provided in the combining statements in this report.

Management's Discussion and Analysis

- **Internal service funds** report activities that provide supplies and services for various City programs and activities. The City uses internal service funds to account for its fleets and facilities services, engineering services, and information technology services. Because these services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Information for each of the internal service funds is provided in the combining statements in this report.

Proprietary funds statements follow the governmental funds statements in this report.

Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support City programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The City's fiduciary funds include the Employees' Retirement Fund, the Firemen's Pension Fund, the Police Relief and Pension Fund, the S. L. Denny Private-Purpose Trust Fund, and various agency funds.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Required Supplementary Information

This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds and pension plan funding.

Combining Statements

The combining statements referred to earlier in connection with the nonmajor funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Two years of financial information in the GASB 34 format are presented.

Statement of Net Assets

Table A-1 **CONDENSED STATEMENT OF NET ASSETS**
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and Other Assets	\$ 792,667	\$ 909,450	\$ 838,799	\$ 1,081,452	\$ 1,631,466	\$ 1,990,902
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	2,210,755	1,962,194	2,881,747	2,741,341	5,092,502	4,703,535
Total Assets	3,003,422	2,871,644	3,720,546	3,822,793	6,723,968	6,694,437
Current Liabilities	230,635	207,455	251,066	540,287	481,701	747,742
Noncurrent Liabilities	1,176,257	1,152,576	2,647,751	2,466,315	3,824,008	3,618,891
Total Liabilities	1,406,892	1,360,031	2,898,817	3,006,602	4,305,709	4,366,633
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,404,442	1,328,297	676,051	699,396	2,080,493	2,027,693
Restricted	126,509	105,898	178,897	278,815	305,406	384,713
Unrestricted (Deficit)	65,579	77,418	(33,219)	(162,022)	32,360	(84,604)
Total Net Assets	\$ 1,596,530	\$ 1,511,613	\$ 821,729	\$ 816,189	\$ 2,418,259	\$ 2,327,802

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Table A-1 is a condensed version of the statement of net assets for the City of Seattle. At the close of the current fiscal year the City's total assets exceeded liabilities by \$2.418 billion.

The largest portion of the City's net assets (86.0 percent) reflects investment of \$2.080 billion in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$305.4 million (12.6 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$32.4 million (1.4 percent) may be used to meet the government's obligation to citizens and creditors.

Unrestricted net assets for governmental activities decreased by 15.2 percent from \$77.4 million in 2002 to \$65.6 million in 2003. The City continued its efforts to reduce governmental expenses in 2003 due to projected declines in revenues. Even so, unrestricted net assets for governmental activities declined while net assets invested in capital, net of related debt and restricted net assets for governmental activities both increased.

The unrestricted net assets for the business activities improved significantly between 2002 and 2003 from a deficit of \$162.0 million to a deficit of \$33.2 million. The deficit was primarily due to purchased power costs of the City Light Utility, \$300 million of which was deferred in 2001, in accordance with resolutions authorized by the City Council and Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulations*, which provides for deferral of certain utility costs and related recognition in future years as costs are recovered through future rates. The associated net assets have been restricted accordingly. \$100.0 million of the deferred power costs were amortized in 2002 and 2003, respectively. The remaining \$100.0 million is expected to be recovered by the end of 2004.

Table A-2

CHANGES IN NET ASSETS RESULTING FROM CHANGES IN REVENUES AND EXPENSES (In Thousands)

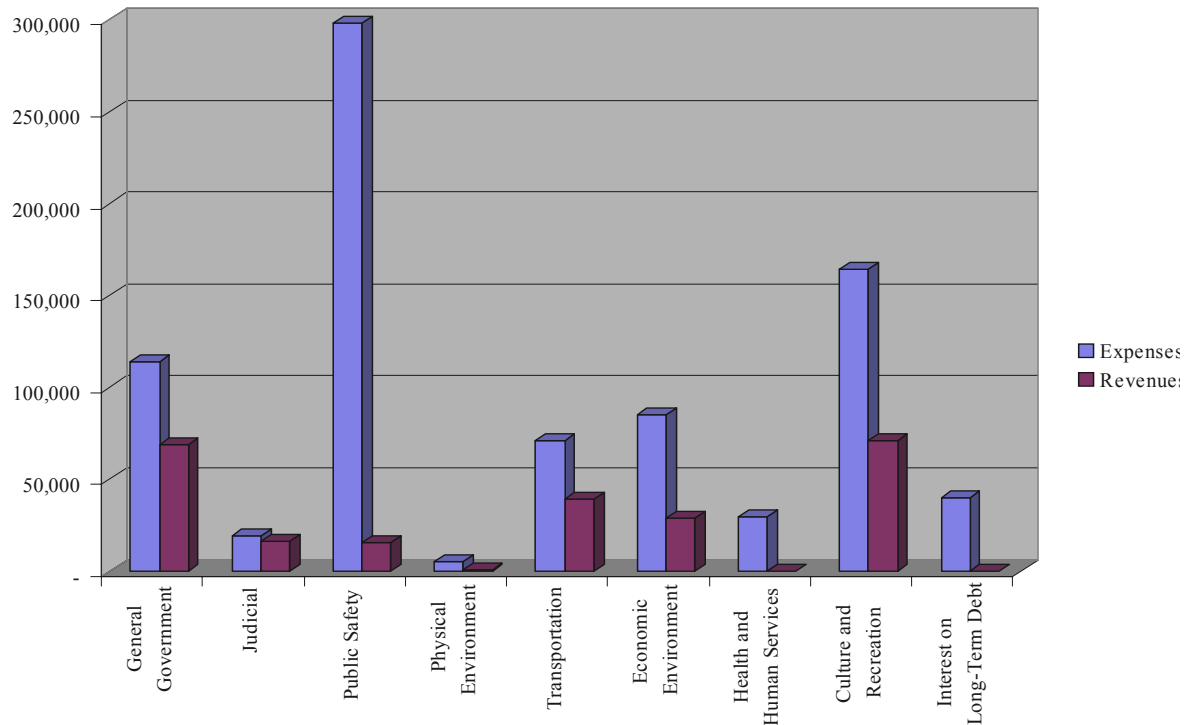
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program Revenues						
Charges for Services	\$ 145,037	\$ 135,233	\$ 1,166,768	\$ 1,113,519	\$ 1,311,805	\$ 1,248,752
Operating Grants and Contributions	59,468	69,488	667	1,289	60,135	70,777
Capital Grants and Contributions	37,007	78,569	31,493	18,851	68,500	97,420
General Revenues						
Property Taxes	252,702	251,746	-	-	252,702	251,746
Sales Taxes	124,951	127,296	-	-	124,951	127,296
Business Taxes	248,467	244,641	-	-	248,467	244,641
Other Taxes	40,591	36,035	-	-	40,591	36,035
Other	13,693	31,388	13,583	14,576	27,276	45,964
Total Revenues	921,916	974,396	1,212,511	1,148,235	2,134,427	2,122,631
Expenses						
Governmental Activities						
General Government	113,834	102,124	-	-	113,834	102,124
Judicial	19,211	19,720	-	-	19,211	19,720
Public Safety	298,201	288,136	-	-	298,201	288,136
Physical Environment	5,513	5,479	-	-	5,513	5,479
Transportation	71,513	78,388	-	-	71,513	78,388
Economic Environment	85,130	94,305	-	-	85,130	94,305
Health and Human Services	29,483	30,341	-	-	29,483	30,341
Culture and Recreation	164,418	184,167	-	-	164,418	184,167
Interest on Long-Term Debt	40,129	39,832	-	-	40,129	39,832
Business-Type Activities						
Light	-	-	777,631	734,527	777,631	734,527
Water	-	-	124,611	123,328	124,611	123,328
Drainage and Wastewater	-	-	156,786	146,851	156,786	146,851
Solid Waste	-	-	112,114	111,985	112,114	111,985
Planning and Development	-	-	37,114	36,073	37,114	36,073
Downtown Parking Garage	-	-	8,284	8,311	8,284	8,311
Total Expenses	827,432	842,492	1,216,540	1,161,075	2,043,972	2,003,567
Excess (Deficiency) Before Transfers	94,484	131,904	(4,029)	(12,840)	90,455	119,064
Transfers	(9,569)	(6,886)	9,569	6,886	-	-
Increase in Net Assets	84,915	125,018	5,540	(5,954)	90,455	119,064
Net Assets - Beginning of Year	1,511,615	1,386,596	816,189	822,142	2,327,804	2,208,738
Nets Assets - End of Year	\$ 1,596,530	\$ 1,511,614	\$ 821,729	\$ 816,188	\$ 2,418,259	\$ 2,327,802

Analysis of Changes in Net Assets

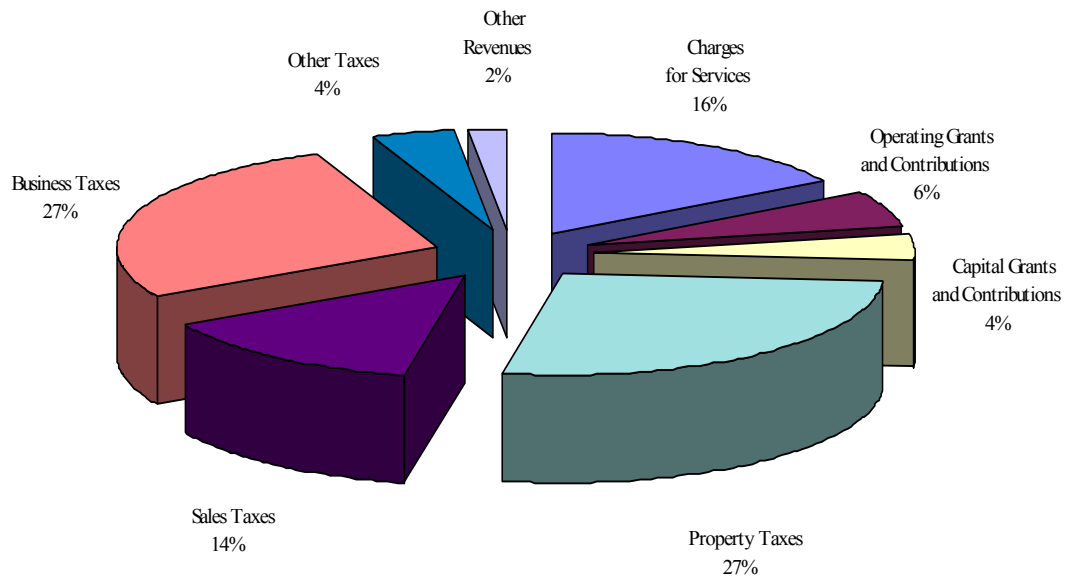
The City's total net assets increased by \$90.5 million in 2003. The increase is explained in the following discussion of government and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total \$ 921.9 Million

Governmental activities. The charts on the previous page present the City's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by culture and recreation, general government, economic environment, and transportation. General revenues such as the property, business, and sales taxes are not shown by function because they are used to support Citywide program activities. Governmental activities increased the City's net assets by \$84.9 million compared to an increase of \$125.0 million in 2002. Key factors in the change are as follows:

In 2003 total revenues for governmental activities were \$921.9 million, \$52.5 million or 5.4 percent lower than 2002.

Program revenue related to charges for services, which includes licenses and permits, fines and forfeits, and other service fees, increased by \$9.8 million in 2003. The 2003 adopted budget included increases to existing fees and fines as well as the creation of a variety of new fees.

Grants and contributions were down \$51.6 million compared to 2002. Capital grants and contributions decreased by \$41.6 million. In 2002 the City received \$39.0 million from the Seattle Center Foundation as a contribution towards the construction of McCaw Hall Center and the Fisher Pavilion. Construction of the Fisher Pavilion was completed in 2002. The McCaw Hall was completed and opened in 2003. Operating grants and contributions decreased by \$10.0 million, largely caused by a net decrease of \$6.3 million in federal grants resulting from decreases of \$13.8 million from the Department of Transportation, \$1.2 million from the Department of Energy, and \$1.7 million from the Federal Emergency Management Agency, the Department of Housing and Urban Development, and the Department of Justice. These decreases were partially offset by increases in federal grants of \$0.9 million from the Department of Homeland Security, \$5.5 million from the Department of Health and Human Services, and \$1.9 million from other federal grantors.

Property taxes, the largest source of revenue supporting governmental activities remained relatively constant in 2003, increasing by approximately \$1.0 million (0.4 percent) compared to 2002. Business taxes are the second largest contributor to governmental revenues. The business and occupation (B&O) tax, the major business tax, is levied by the City on the gross receipts of most business activity occurring in Seattle. The City also levies a B&O tax on the gross income derived from sales of utility services within Seattle. In 2003, business tax revenues increased by \$3.8 million, which is attributed to an increase in the tax base. Sales tax revenues declined for the third consecutive year in 2003 due to the continuing impact of the recession. Other tax revenues increased by \$4.6 million. Real estate and leasehold excise taxes, cable and admissions taxes were up while there was a decline in penalties and interest collected on delinquent taxes as well as telephone taxes.

Due to falling interest rates and a decline in cash balances in the capital projects funds, interest and investment earnings declined by approximately \$15.2 million, from \$24.5 million in 2002 to \$9.3 million in 2003. The average rate of return declined from 4.2 percent in 2002 to 3.2 percent in 2003. Revenue from the sale of capital assets also declined, down \$2.5 million.

In 2003 total expenses for governmental activities were \$827.4 million, compared to \$842.5 million in 2002, \$15.1 million or 1.8 percent lower than 2002.

General government expenses increased by \$11.7 million from 2002. Due to a preliminary court ruling, the City recorded a general government expense of \$23.9 million in 2003, representing a liability for a streetlight refund to electric utility ratepayers. Depreciation expense increased in 2003 as the City completed and placed several new buildings into service recently. These increases in spending were partially offset by decreases in judgments and claims payments and across-the-board expenditure cuts for most general government departments.

The decrease in judicial expenses of \$0.5 million resulted from a planned spending reduction by the Municipal Court due to continued budget constraints in 2003.

Public safety expenses increased by \$10.1 million, a 3.5 percent increase over 2002. In addition to inflation, Police Department costs were up due to increased spending for claims and injury damages, health care, and increased overtime for special events including the Top Officials (TOPOFF) disaster recovery exercises and antiwar protests. The Fire Department's labor costs increased due to a 3.5 percent wage increase for Local 27 members that are EMT-certified. This was on top of a 2.5-percent cost-of-living adjustment (COLA) for 2003. In addition, the Fire Department incurred over \$2.0 million in expenses on Computer-Assisted Dispatch/Records Management Systems (CAD/RMS) wireless, Sound Transit, King County Space rescue projects and the TOPOFF disaster recovery exercises.

Physical environment expenses remained relatively constant in 2003, up 0.6 percent to \$5.5 million.

Transportation expenses decreased by \$6.9 million. In 2002 the City provided \$4.4 million to the Elevated Transportation Company for monorail planning. In November 2002 voters approved permanent funding for a monorail, which is now being constructed by the Seattle Monorail Authority. With capital construction and major maintenance work up in 2003, transportation operating expenses declined.

Economic environment expenses decreased by \$9.2 million, largely as a result of the elimination of the Strategic Planning Office and decreases in spending by the Human Services Department, the Department of Neighborhoods, the Office of Housing, and the Office of Economic Development through budget decreases and operating efficiencies. These decreases were partially offset by an increase in expenses for the Downtown Parking Business Improvement District (BIA) of \$1.3 million. The BIA was not fully staffed in 2002. In 2003, labor and benefit costs, particularly health care, increased.

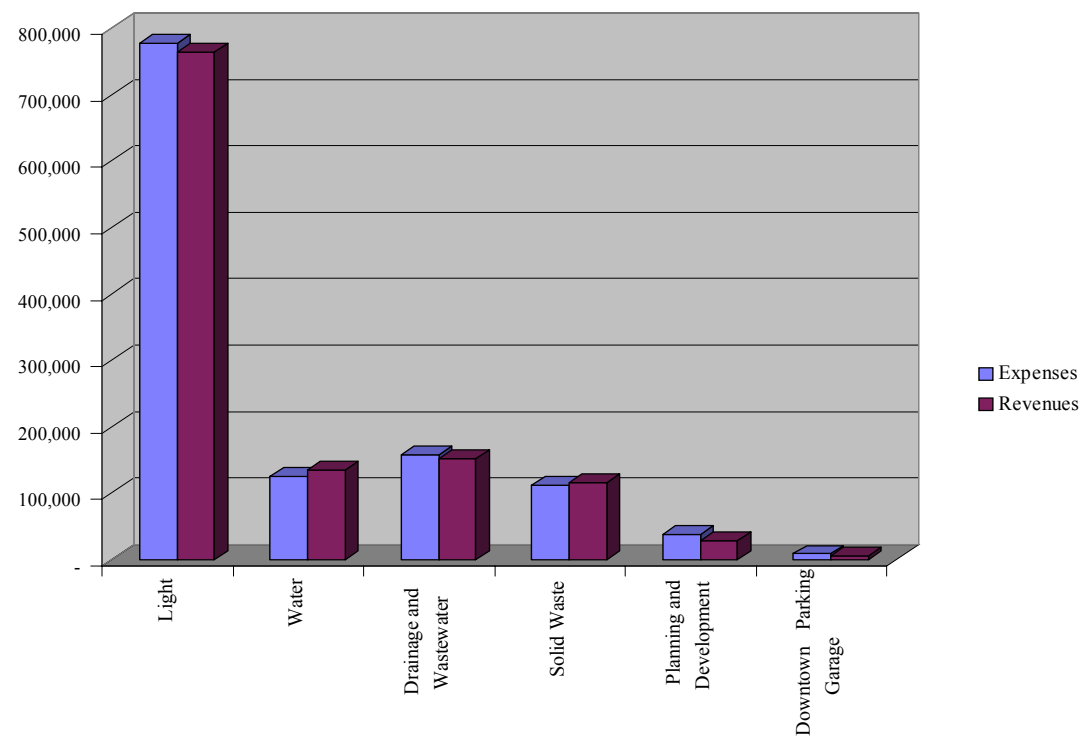
Health and human services expenses declined by \$0.9 million. The City's payments to King County for its share of health care costs declined in 2003. With the worsening economic situation, the City and County worked together to cut costs.

Culture and recreation experienced a reduction of \$19.7 million in expenses. Several major factors contributed to the decrease. In 2002 the operation of the Woodland Park Zoo was transferred to the Woodland Park Zoo Society. Significant staff reductions and other budget cuts were included in the 2003 adopted budget. As the economic slump continued into 2003, the Mayor directed that additional cuts be made and instituted a hiring freeze, travel restrictions, and purchasing reviews. The reduction is also attributed to a decrease in the liability recorded for judgments and claims.

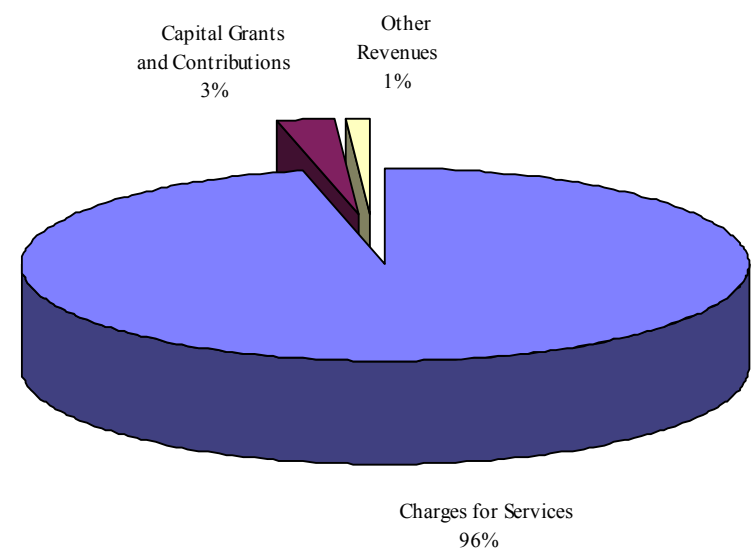
Interest on long-term debt remained relatively constant in 2003, up less than 1.0 percent to \$40.1 million.

Business-Type Activities

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total \$1,212.5 Million

Business-Type Activities. Business-type activities increased the City's net assets by \$5.5 million to \$821.7 million, an increase of 0.7 percent. Key factors for the change are as follows:

The City Light Utility incurred net losses (change in net assets) of \$8.1 million in 2003 compared to \$1.9 million in 2002. Water conditions in the Northwest region were below normal in 2003, depressing City Light's wholesale revenues relative to expected levels. On the other hand, expenses for purchased power, energy management, and other power expenses increased. Expenses in both 2002 and 2003 also included the amortization of \$100.0 million in power costs deferred from 2001. Without these noncash charges, net income would have been \$98.1 million in 2002 and \$91.9 million in 2003.

Net assets of the Water Utility increased by \$16.9 million in 2003. This net income was due to a one-time gain of \$6.7 million related to the sale of a power transmission right-of-way easement to Bonneville Power Administration and the absence of a significant project write-off in 2003.

The Drainage and Wastewater Utility net assets declined by \$4.3 million in 2003. This net loss was caused by increases in environmental charges and interest expenses.

The Solid Waste Utility net assets increased \$3.2 million in 2003. This was the result of increases in residential dumpster rates, a yard waste revenue increase, and effective management control of operating expenses.

The Planning and Development Fund realized a net income of \$0.4 million. The Downtown Parking Garage Fund incurred a net loss of \$2.7 million.

FINANCIAL ANALYSIS OF CITY FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-3 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**
GOVERNMENTAL FUNDS
(In Thousands)

	Major Funds			
	General Fund		Low-Income Housing Fund	
	2003	2002	2003	2002
Revenues				
Taxes	\$ 562,426	\$ 552,200	\$ 11,766	\$ 8,379
Licenses and Permits	15,955	13,940	1	-
Grants, Shared Revenues, and Contributions	16,624	19,054	3,910	2,752
Charges for Services	51,035	38,622	230	1,405
Fines and Forfeits	17,164	15,547	-	-
Parking Fees and Space Rent	27,328	29,106	31	127
Program Income, Interest, and Miscellaneous Revenues	17,056	16,089	5,994	4,426
Total Revenues	707,588	684,558	21,932	17,089
Expenditures	481,497	481,730	20,485	20,223
Other Financing Sources and Uses				
Long-Term Debt	-	-	-	-
Sales of Capital Assets	5,682	7,504	107	185
Transfers In	4,831	7,460	-	3,000
Transfers Out	(227,148)	(246,043)	-	-
Total Other Financing Sources and Uses	(216,635)	(231,079)	107	3,185
Fund Balances				
Fund Balance Reserves	58,669	61,042	35,577	18,069
Reserves Not Available for Appropriation	17,921	8,127	-	-
Unreserved	42,228	40,194	2,381	18,335
Total Fund Balances	\$ 118,818	\$ 109,363	\$ 37,958	\$ 36,404

Management's Discussion and Analysis

Table A-3 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GOVERNMENTAL FUNDS
(In Thousands)

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2003	2002	2003	2002
Revenues				
Taxes	\$ 32,655	\$ 38,845	\$ 27,756	\$ 20,426
Licenses and Permits	1,545	1,194	-	-
Grants, Shared Revenues, and Contributions	61,147	76,104	34	87
Charges for Services	60,244	67,649	-	-
Fines and Forfeits	2,334	2,150	-	-
Parking Fees and Space Rent	16,504	16,055	4,134	728
Program Income, Interest, and Miscellaneous Revenues	6,227	7,410	1,877	1,217
Total Revenues	180,656	209,407	33,801	22,458
Expenditures	355,823	364,373	90,712	109,650
Other Financing Sources and Uses				
Long-Term Debt	(17,433)	750	143	2,306
Sales of Capital Assets	1,076	608	-	-
Transfers In	180,910	156,682	57,358	85,845
Transfers Out	(7,521)	(8,408)	(39)	(90)
Total Other Financing Sources and Uses	157,032	149,632	57,462	88,061
Fund Balances				
Fund Balance Reserves	19,548	46,379	12,970	12,419
Reserves Not Available for Appropriation	19,394	7,746	-	-
Unreserved	8,205	11,157	-	-
Total Fund Balances	\$ 47,147	\$ 65,282	\$ 12,970	\$ 12,419

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds		2003	2002
	2003	2002	2003	2002		
Revenues						
Taxes	\$ 32,436	\$ 39,305	\$ -	\$ -	\$ 667,039	\$ 659,155
Licenses and Permits	-	-	-	-	17,501	15,134
Grants, Shared Revenues, and Contributions	14,648	47,649	-	-	96,363	145,646
Charges for Services	228	1,094	-	-	111,737	108,770
Fines and Forfeits	-	-	-	-	19,498	17,697
Parking Fees and Space Rent	121	109	-	-	48,118	46,125
Program Income, Interest, and Miscellaneous Revenues	4,981	13,570	49	128	36,184	42,840
Total Revenues	52,414	101,727	49	128	996,440	1,035,367
Expenditures	222,833	257,539	500	212	1,171,850	1,233,727
Other Financing Sources and Uses						
Long-Term Debt	59,420	241,507	-	-	42,130	244,563
Sales of Capital Assets	-	-	-	-	6,865	8,297
Transfers In	2,235	646	-	-	245,334	253,633
Transfers Out	(40,067)	(24,236)	(15)	(15)	(274,790)	(278,792)
Total Other Financing Sources and Uses	21,588	217,917	(15)	(15)	19,539	227,701
Fund Balances						
Fund Balance Reserves	110,928	309,426	12	4	237,704	447,339
Reserves Not Available for Appropriation	49,704	-	2,217	2,228	89,236	18,101
Unreserved	-	37	161	624	52,975	70,347
Total Fund Balances	\$ 160,632	\$ 309,463	\$ 2,390	\$ 2,856	\$ 379,915	\$ 535,787

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources available for spending. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance measures the City's net resources available for spending at the end of the fiscal year. Governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$379.9 million, a decrease of \$155.9 million in comparison to 2002. Approximately \$53.0 million of this amount constitutes unreserved fund balance which is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for other purposes such as (1) payment on existing contracts and purchase orders, \$76.8 million; (2) funding of continuing projects and programs in future periods, \$134.4 million; (3) payment of debt service, \$22.4 million; (4) covering cash advances to other funds, \$80.7 million; and (5) a variety of other purposes, \$12.6 million.

Revenues for governmental funds overall totaled approximately \$996.4 million in the fiscal year ended December 31, 2003, which represents a decrease of approximately 3.8 percent from the prior fiscal year. Expenditures in governmental funds, totaling \$1.172 billion, decreased by approximately 5.0 percent during the same period. In the aggregate, expenditures for governmental funds exceeded revenues by approximately \$175.4 million.

The **General Fund** is the chief operating fund of the City. It is composed of sixteen subfunds: General, Judgment/Claims, Arts Account, Cable TV Franchise, Cumulative Reserve, Neighborhood Matching, City Hall, Development Rights, Police Support Facility, Emergency, Street Vacation Compensation, Special Employment Program, Industrial Insurance, Unemployment Compensation, Health Care, and Group Term Life Insurance. Table A-4 provides a summary of the status of the various subfunds at year-end 2003.

At the end of 2003 the total fund balance of the General Fund was \$118.8 million. Fund balance increased by \$9.5 million in 2003 compared to 2002.

Total revenues for General Fund increased \$23.0 million, 3.4 percent higher than 2002. Tax revenues increased by \$10.2 million. The City Council approved a one-percent rate increase in property taxes for 2003 while robust activity in new construction and other homes sales contributed to an increase in real estate excise tax revenues. B&O tax increases are attributed to a healthy return from service businesses. Revenue in the charges for services category increased by \$12.4 million. The increase was primarily due to a change in the funding method used for lawsuit and claims costs. The Health Care Subfund saw an increase in revenues due to a health care rate hike that was charged to the departments for employee health care costs. The 2003 adopted budget also included increases in existing fees and fines as well as the creation of some new fees. These too increased General Fund revenues.

General Fund expenditures overall declined slightly in 2003, from \$481.7 million to \$481.5 million. About 340 general government full-time equivalent positions were eliminated in the 2003 adopted budget which assumed a slow recovery from the recession. Many of these reductions were previously funded by the General Fund, either directly or indirectly through cash transfers to other funds. As the economic slump continued into 2003 and there was a further reduction in revenue projections, departments were required to reduce costs even more. The City also has continued with a freeze on new hires and travel restrictions.

In addition to staff-cut savings, costs for claims and lawsuits were down in 2003. These reductions were offset by inflationary increases, as well as increases in costs incurred in the Cumulative Reserve Subfund for various projects, such as the Sand Point Magnuson Park building roof replacement, Jefferson Park sprinkler system, and the purchase of some property for use as a training facility.

Changes in the other financing sources and uses category also contributed to the improved fund balance position in 2003. In 2002, \$246.0 million was transferred out of the General Fund to support other City Funds activities. In 2003 support to other departments was reduced, with only \$227.1 million in cash transferred out.

The **Low-Income Housing Fund**, a special revenue fund and one of the major governmental funds of the City, manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for the seven-year housing levy approved by voters in 1995. An additional seven-year levy was approved by the voters in November 2002. At \$38.0 million, the Low-Income Housing Fund ended the year with a fund balance increase of \$1.6 million or 4.3 percent. Revenue increased by \$4.8 million in 2003, primarily due to two reasons: (1) 2003 was the first year of collections for the new 2003 Housing Levy, and (2) loan payoffs from bridge loans increased. These increases were partially offset by the elimination of support from the General Fund in 2003. Also in 2002 the Low-Income Housing Fund received a one-time transfer of \$2.3 million for low-income housing in the South Lake Union area. Expenditures for 2003 remained at the same level as the prior year.

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In 2003 the other **special revenue funds** showed an \$18.1 million or 27.8 percent decrease in fund balance as a result of operations. The most significant changes occurred in the Education and Development Services Fund (\$7.3 million), Library Fund (\$4.1 million), Park and Recreation Fund (\$3.2 million), Seattle Center Fund (\$2.1 million), and Transportation Fund (\$1.8 million).

Total revenues were down \$28.8 million, a 13.7 percent decrease. Tax revenue declined by \$6.2 million mainly due to the planned timing of the 1997 Families and Education Levy payments. The annual payments were significantly larger in the earlier years of the levy. Grant revenue for transportation projects also declined significantly due to culmination of several major projects, such as the Spokane Utility Relocation, West Lake Union, Princeton Bridge Replacement, West Garfield Slide and 2001 Earthquake projects. The Park and Recreation Fund revenue decline is mainly attributed to the Parks Department's write-off of a receivable from Municipal Golf of Seattle and the transfer of operation of the Woodland Park Zoo to the Woodland Park Zoological Society.

Expenditures decreased by \$8.6 million, a 2.3 percent decrease. The majority of the special revenue funds showed decreases in expenditures. As mentioned previously, there were significant general government staff reductions in the 2003 adopted budget and the City continues to maintain a hiring freeze and travel restrictions. Other major reductions included the transfer of the Woodland Park Zoo and decreased spending for the Seattle Monorail project. In 2002 the City provided \$4.4 million in funds for monorail planning. Permanent funding for the project was approved by voters at the end of 2002. While spending was down for most funds, Library Fund expenditures were up by \$7.9 million in 2003. The increase was due to spending on construction and improvements at various libraries as well as the purchase of additional books and materials for the new Central Library.

The fund balance in the **capital projects funds** decreased significantly as a result of 2003 construction activity, down \$148.8 million or 48 percent. The Libraries for All Fund and the Municipal Civic Center Fund accounted for the majority of the decline, down \$89.3 million and \$36.9 million respectively. In addition, the 2002B Limited Tax General Obligation, Transportation Bond Fund, and the 2001 Capital Facilities Bond Fund accounted for \$28.9 million, \$8.0 million, \$5.6 million, respectively. Fund balance increased \$9.7 million in the Seattle Center and Parks Multipurpose Levy Fund. The new 2003 Long-Term General Obligation Project Fund was established in 2003 to account for the bonds issued in Feb 2003. At year-end the fund balance in this fund was \$15.1 million.

Expenditures for capital projects were \$222.8 million in 2003. Seattle's new Civic Center neared completion with the opening of City Hall in the summer of 2003. The City Hall Plaza is scheduled to be completed in 2004. The City's opera house, the Marion Mc Caw Hall, opened in June 2003. Work on the new Central Library continued in 2003, and the Library opened in May 2004.

The **debt service funds** showed a minor increase in fund balance of \$0.6 million, while the **permanent funds** showed a decrease of \$0.5 million.

Table A-4 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GENERAL FUND SUBFUNDS
(In Thousands)

	<u>General</u>	<u>Judgment/ Claims</u>	<u>Arts Account</u>	<u>Cable Television Franchise</u>	<u>Cumulative Reserve</u>	<u>Neighborhood Matching</u>
Revenues						
Taxes	\$ 534,423	\$ -	\$ 27	\$ -	\$ 27,976	\$ -
Licenses and Permits	13,441	-	-	2,514	-	-
Grants, Shared Revenues, and Contributions	14,028	-	-	-	1,853	-
Charges for Services	39,908	10,203	-	-	179	-
Fines and Forfeits	17,020	144	-	-	-	-
Parking Fees and Space Rent	10,563	-	-	-	341	-
Program Income, Interest, and Miscellaneous Revenues	2,084	-	6	671	3,033	-
Total Revenues	<u>631,467</u>	<u>10,347</u>	<u>33</u>	<u>3,185</u>	<u>33,382</u>	<u>-</u>
Expenditures	426,154	7,036	177	-	29,050	3,388
Other Financing Sources and Uses						
Sales of Capital Assets	10	-	-	-	5,670	-
Transfers In	4,523	801	-	-	125	3,649
Transfers Out	(208,385)	(500)	-	(3,323)	(13,095)	(502)
Total Other Financing Sources and Uses	<u>(203,852)</u>	<u>301</u>	<u>-</u>	<u>(3,323)</u>	<u>(7,300)</u>	<u>3,147</u>
Fund Balances						
Fund Balance Reserves	12,631	9,147	103	-	26,926	5,602
Reserves Not Available for Appropriation	3,219	-	-	-	-	-
Unreserved	6,394	-	145	1,602	-	354
Total Fund Balances	<u>\$ 22,244</u>	<u>\$ 9,147</u>	<u>\$ 248</u>	<u>\$ 1,602</u>	<u>\$ 26,926</u>	<u>\$ 5,956</u>

	<u>City Hall</u>	<u>Development Rights</u>	<u>Police Support Facility</u>	<u>Emergency</u>	<u>Street Vacation Compensation</u>	<u>Special Employment Program</u>
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-	-
Grants, Shared Revenues, and Contributions	-	-	-	743	-	-
Charges for Services	-	-	-	-	-	573
Fines and Forfeits	-	-	-	-	-	-
Parking Fees and Space Rent	14,891	-	1,533	-	-	-
Program Income, Interest, and Miscellaneous Revenues	9	36	1	(33)	-	-
Total Revenues	<u>14,900</u>	<u>36</u>	<u>1,534</u>	<u>710</u>	<u>-</u>	<u>573</u>
Expenditures	9,179	-	985	(62)	-	1,389
Other Financing Sources and Uses						
Sales of Capital Assets	-	-	-	-	-	-
Transfers In	2,635	-	921	2,178	-	-
Transfers Out	(9,695)	(36)	(889)	(463)	(475)	-
Total Other Financing Sources and Uses	<u>(7,060)</u>	<u>(36)</u>	<u>32</u>	<u>1,715</u>	<u>(475)</u>	<u>-</u>
Fund Balances						
Fund Balance Reserves	-	-	38	95	-	-
Reserves Not Available for Appropriation	-	-	-	14,702	-	-
Unreserved	9,294	-	1,471	15,585	(166)	1,246
Total Fund Balances	<u>\$ 9,294</u>	<u>\$ -</u>	<u>\$ 1,509</u>	<u>\$ 30,382</u>	<u>\$ (166)</u>	<u>\$ 1,246</u>

Table A-4 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GENERAL FUND SUBFUNDS (Continued)
(In Thousands)

	Industrial Insurance	Unemployment Compensation	Health Care	Group Term Life Insurance	Total General Fund	
					2003	2002
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 562,426	\$ 552,200
Licenses and Permits	-	-	-	-	15,955	13,940
Grants, Shared Revenues, and Contributions	-	-	-	-	16,624	19,054
Charges for Services	172	-	-	-	51,035	38,622
Fines and Forfeits	-	-	-	-	17,164	15,547
Parking Fees and Space Rent	-	-	-	-	27,328	29,106
Program Income, Interest, and Miscellaneous Revenues	1,296	676	9,428	(151)	17,056	16,089
Total Revenues	1,468	676	9,428	(151)	707,588	684,558
Expenditures	-	-	3,640	561	481,497	481,730
Other Financing Sources and Uses						
Sales of Capital Assets	2	-	-	-	5,682	7,504
Transfers In	-	-	214	-	15,046	7,460
Transfers Out	-	-	-	-	(237,363)	(246,043)
Total Other Financing Sources and Uses	2	-	214	-	(216,635)	(231,079)
Fund Balances						
Fund Balance Reserves	67	5	4,055	-	58,669	61,042
Reserves Not Available for Appropriation	-	-	-	-	17,921	8,127
Unreserved	4,836	474	621	372	42,228	40,194
Total Fund Balances	\$ 4,903	\$ 479	\$ 4,676	\$ 372	\$ 118,818	\$ 109,363

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

City Light Utility. Operating income of City Light declined to \$38.9 million in 2003, from \$58.8 million in 2002, a net decrease of \$19.9 million. Operating revenues increased by \$41.1 million, but operating expenses increased faster by \$60.9 million. Power purchases accounted for \$29.4 million of the operating expense increase, and energy management and other power expenses for \$14.5 million of the increase. Net loss (change in net assets) widened to \$8.1 million in 2003, from \$1.9 million in 2002. City Light incurred a net loss of \$73.3 million during the energy crisis of 2001 after deferral of \$300.0 million in excess power costs from 2001 to future years pursuant to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, and City of Seattle Ordinance No. 120385. The amortization of power costs for 2003 and 2002 was \$100.0 million for each year. Without the deferral and amortization of power costs, net income would have been \$91.9 million in 2003, \$98.1 million in 2002, while net loss would have been \$373.3 million in 2001.

Net cash provided by operating activities decreased to \$214.9 million in 2003 compared to \$237.4 million in 2002, a net decline of \$22.5 million. Total operating and restricted cash and investments were \$168.8 million in 2003, down from \$275.6 million in 2002, a net decrease of \$106.8 million. The decrease in cash and investments was largely due to the payment of revenue anticipation notes for \$307.2 million.

Utility plant and other capital assets were \$1.391 billion and \$1.345 billion in 2003 and 2002, respectively, an increase of \$46.0 million. The majority of the capital asset additions was in the distribution system.

City Light paid in full the \$307.2 million revenue anticipation notes payable and issued \$251.9 million new revenue bonds in 2003. The \$115.7 million revenue bond proceeds were used to defease part of the 1993 bonds, and the remaining amount was used for construction and acquisition of capital assets. Total net revenue bonds and anticipation notes payable were \$1.522 billion in 2003 and \$1.736 billion in 2002, a net decrease of \$214.0 million. Interest expenses were \$73.9 million in 2003 and \$81.3 million in 2002. Debt service coverage ratios were 1.56 in 2003 and 1.61 in 2002. Including long-term debt, the total liabilities were \$1.770 billion in 2003 and \$1.907 billion in 2002.

Total net assets were \$290.1 million in 2003 and \$298.3 in 2002.

Water Utility. Operating income of the Water Utility increased to \$31.6 million in 2003 from \$27.3 million in 2002. Net income rose to \$16.9 million in 2003 from \$2.6 million in 2002, an increase of \$14.3 million. The net income increase was due to a one-time gain of \$6.7 million related to the sale of a power transmission right-of-way easement to Bonneville Power Administration and the absence of a significant project write-off in 2003 (a \$6.6 million loss on Tacoma Project written-off in 2002).

Net cash provided by operating activities rose to \$68.9 million in 2003 from \$55.0 million in 2002, an increase of \$13.9 million. Total operating and restricted cash and investments were \$73.2 million in 2003 compared to \$27.2 million in 2002, an increase of \$46.0 million. This increase in cash and investments resulted from proceeds of the sale of revenue bonds, development of a rate stabilization account, and receipt of easement revenues from Bonneville Power Administration.

Utility plant and other capital assets were \$931.6 million and \$867.5 million in 2003 and 2002, respectively, an increase of \$64.1 million. Significant capital was spent on the construction of the new Cedar River water treatment plant and on pipeline, conservation, and distribution system improvements.

The Water Utility issued \$271.3 million in revenue bonds; \$175.8 million of the proceeds was used to refinance the 1993 outstanding revenue bonds, and the balance was used to finance the water system capital program. Total revenue bonds payable was \$731.5 million and \$654.1 million in 2003 and 2002, respectively. Interest expenses were \$25.9 million in 2003 and \$24.0 million in 2002. Bond covenants require net revenues for debt service at 125 percent for both 2003 and 2002, while actual net revenues for debt service were 164 percent for 2003 and 151 percent for 2002. Including revenue bonds payable, total liabilities were \$775.8 million and \$677.2 million in 2003 and 2002, respectively.

Total net assets were \$280.5 million in 2003 and \$263.6 million in 2002.

Drainage and Wastewater Utility. Operating income of the Utility increased to \$7.4 million in 2003 from \$3.5 million in 2002, a net increase of \$3.9 million. Operating revenues increased \$6.2 million and operating expenses increased \$2.3 million between 2003 and 2002. The Utility incurred a net loss of \$4.3 million in 2003 and \$0.4 million in 2002. This loss was caused primarily by increases in environmental charges and interest expenses.

Net cash provided by operating activities increased to \$16.0 million in 2003 from \$6.4 million in 2002. The Utility did not provide an advance payment to King County for wastewater treatment in 2003 as was done in 2002. Total operating and restricted cash and investments were \$26.0 in 2003 compared to \$66.8 in 2002, a decrease of \$40.8 million. This decrease was associated with spending of 2002 revenue bond proceeds for construction activities in 2003.

Utility plant and other capital assets increased to \$464.1 million in 2003 from \$435.3 million in 2002, an increase of \$28.8 million. Significant investments in capital assets were for improvements to the wastewater collection and conveyance system, control of combined sewer overflows, improvements to the drainage collection and conveyance system, and habitat projects.

The Utility did not issue new revenue bond obligations in 2003. The total outstanding bond liabilities were \$244.4 in 2003 and \$248.8 million in 2002, a decrease of \$4.4 million. Interest expenses were \$9.4 million in 2003 and \$5.7 million in 2002. Debt service coverage ratio requirements were 1.25 for both 2003 and 2002, and actual debt service coverage ratios were 2.12 in 2003 and 2.01 in 2002. Total liabilities were \$271.8 million in 2003 and \$270.8 million in 2002.

Total net assets were \$248.2 million in 2003 and \$252.5 in 2002.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the City of Seattle Employees' Retirement System, the Firemen's Pension Fund, the Police Relief and Pension Fund, the S.L. Denny Private Purpose Trust Fund, and various agency funds. Total net assets of the combined fiduciary funds at the end of 2003 were \$1.533 billion. The Seattle City Employment Retirement System (SCERS) represented 99.6 percent of that amount. SCERS assets that are held in trust for the payment of future benefits exceeded its current amounts owed as of December 31, 2003, by \$1.5 billion. SCERS net assets increased by \$272.8 million to \$1.528 billion during 2003, primarily due to gains in the equity markets in the U.S. and abroad. SCERS total revenues (additions to net assets) for 2003 were \$361 million, which includes member and employer contributions of \$70 million and net investment income totaling \$291 million. SCERS total expenses (deductions to net assets) for 2003 rose to \$89 million (7.3 percent) from \$83 million for 2002. Most of the increase was attributed to an increase in monthly retiree benefits.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's final expenditure budget for the General Fund differed from the original budget due to supplemental legislation/appropriations approved during the year. In fiscal year 2003 the General Fund's original budget was \$634.6

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million with an increase of \$21 million (3.3 percent) in supplemental appropriations after a reduction for reimbursements received for Personnel's services. The most significant changes are described below:

- The budget for public safety was increased by \$7.4 million. The Police Department's budget increase provided for reimbursable marine patrol law enforcement services in Elliott Bay, reimbursable patrols in other areas, and drug and narcotics enforcement. There was also additional appropriation authority of \$5.6 million for grants received in 2003.
- The budget for general government increased by \$10.9 million after the \$97.0 million reduction for reimbursements. The most significant increase occurred in the Cumulative Reserve Unrestricted Subfund, with an additional appropriation of \$10.5 million to cover a property acquisition.
- The budget for economic environment declined by \$2.6 million, which was transferred to the Health Department by ordinance.

At year-end 2003 actual expenditures were \$74.1 million less than budgeted. Of this amount, \$42.1 million budget was carried over into 2004 to cover outstanding encumbrances, grants, capital spending, and special carryovers. The balance of the expenditure budget was lapsed. Due to the poor economic situation in 2003, the Mayor directed most General Fund departments to make cuts in their 2003 budgets. Additionally, he required more savings through a hiring freeze, travel restrictions, and purchasing reviews. The Health Care Subfund also contributed to the underspending of budget in the General Fund. Actual costs for employees' medical and dental coverage were significantly less than the budgeted amount. Operations and maintenance costs for City Hall and the Police Support Facility Subfunds were less than budgeted as well.

During the year budgetary revenue estimates exceeded actual revenues by \$14.2 million. Of this decrease, \$16.5 million is attributable to lower than anticipated space rental and parking fees while a higher than anticipated collection of tax revenues reduced this by \$3.0 million.

CAPITAL ASSETS

The following schedule shows the City's investment in capital assets.

Table A-5 **CAPITAL ASSETS AT YEAR END, NET OF DEPRECIATION**
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 345,578	\$ 301,459	\$ 62,597	\$ 54,388	\$ 408,175	\$ 355,847
Plant in Service, Excluding Land	-	-	2,385,281	2,188,955	2,385,281	2,188,955
Buildings and Improvements	944,010	721,865	60,844	63,278	1,004,854	785,143
Machinery and Equipment	81,500	67,900	8,475	6,903	89,975	74,803
Infrastructure	460,482	469,170	-	-	460,482	469,170
Construction in Progress	372,816	396,907	350,041	417,465	722,857	814,372
Other Capital Assets	6,369	4,893	14,510	10,353	20,879	15,246
Total Capital Assets	\$ 2,210,755	\$ 1,962,194	\$ 2,881,748	\$ 2,741,342	\$ 5,092,503	\$ 4,703,536

Capital assets for governmental activities increased \$248.6 million in 2003. Major increases include the following:

- Seattle Center completed construction of the Marion Oliver McCaw Hall (renovation of the former Seattle Center Opera House) at a total cost of \$111.3. McCaw Hall opened to the public in June 2003. Seattle Center also capitalized \$2.3 million in various other improvements.
- The Fleets and Facilities Department (FFD) completed construction of the new City Hall, the Southwest Precinct, and training facilities at a total cost of \$70.9 million, \$10.9 million, and \$8.8 million, respectively. FFD also purchased training facility land at a cost of \$10.5 million and capitalized \$6.9 million in improvements. Over 70 percent of the improvements were at the Seattle Municipal Tower.
- The Parks Department purchased numerous parcels of land for parks and community center purposes, spending a total of \$26.6 million. They also added the Westbridge Building at a cost of \$14.0 million and spent \$35.3 for various improvements.
- Transportation capitalized \$16.4 million for various infrastructure assets (roads, bridges, sidewalks, signs, signals, illuminations, and others) and \$0.1 million for land acquisition. Construction in progress increased by \$28.1 million.

- The Library completed construction of the Capital Hill Branch Library at a cost of \$4.5 million. Construction of the new Central Library continued in 2003, as did work on various other library branch buildings. The new Central Library opened in May 2004. Construction in progress at December 31, 2003, was \$182.7 million.

Capital assets for business-type activities increased \$140.4 million, as follows:

- City Light capital assets increased by approximately \$45.4 million (net of \$52.0 million accumulated depreciation). These were mainly for improvements to the distribution system, hydroelectric system, general plant, transmission plant, as well as for land and land rights. The distribution system improvements were for conductors, conduits, other devices, poles, towers, transformers, and service improvements. Many hydroelectric system improvements were at the Boundary Dam for accessory electrical equipment, structures, waterwheels and turbines, generators, and waterways. General plant improvements consisted of automated systems and communications equipment, and capital outlay for station equipment at Bothell accounted for major additions to the transmission plant.
- Water Utility capital assets increased \$64.1 million (net of \$26.1 million accumulated depreciation). Major capital outlays were for construction of the new treatment plant at Cedar River water supply source which is expected to be completed in 2004; for pipeline, conservation, and distribution improvements; and for projects related to the Cedar River Habitat Conservation Plan.
- Drainage and Wastewater Utility capital assets increased \$28.8 million (net of \$7.6 million accumulated depreciation). Major capital improvements included a wastewater collection and conveyance system, controls for the combined sewer overflows, and a drainage system, including drainage collection and conveyance alterations, water quality enhancements, and habitat projects.
- Nonmajor funds capital assets increased \$2.1 million, which were largely for facility improvements, rehabilitation, and heavy equipment for Solid Waste.

More detail about the City's capital assets is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At the end of the 2003 fiscal year the City had \$3.492 billion outstanding bonded debt, compared to \$3.624 billion in 2002. This represents a decrease of approximately \$132.0 million (4.0 percent).

In 2003 the City issued general obligation bonds to finance various ongoing construction projects. Projects include the multiphased Municipal Civic Center for the Civic Center Plan component, completion of the McCaw Hall and Joint Training Facility, major repair of Park 90/5 Facility due to the February 2002 earthquake, roof and structural repair of Seattle Center, and other minor capital projects, including road projects. Revenue bonds were issued to finance capital improvement projects, additions and conservation programs of the Light and Water systems of the City. The City issued revenue anticipation notes to finance capital projects of the Solid Waste Utility. To take advantage of the low-interest rates and improve cash flow, the City refinanced \$281.6 million of a series of general obligation bonds and two series of revenue bonds. By refinancing the debt the City will save \$19.4 million in principal and interest over the next 15 to 20 years. Additionally, the City defeased \$4.9 million of the 1994 Coliseum bonds, placing its own resources into a trust to service the debt when it is due or called.

The City's unlimited tax general obligation bonds are rated Aaa by Moody's Investors Service, AAA by FitchRatings, and AAA by Standard & Poors. The City's limited tax general obligation bonds are rated Aa-1 by Moody's Investors Services, AA+ by FitchRatings, and AAA by Standard & Poors. The City maintained its high bond ratings on its Light, Water, Drainage and Wastewater, and Solid Waste revenue bonds. The City's limited and unlimited general obligation debt is capped at 7.5 percent of assessed value by state law. The 2004 assessed value for the City is \$83.9 billion. At year-end 2003 the net outstanding general obligation debt of the City that includes bonds, leases, compensated absences net of sick leave, and guarantees of indebtedness amounted to \$1.1 billion, well below the limit of \$6.3 billion. Within the 7.5 percent limitation, state law restricts outstanding limited tax general obligation bonds to 1.5 percent of assessed value. At year-end 2003 the net outstanding limited tax general obligation is \$723.7 million.

The City is self-insured for general liabilities, workers compensation, and health care. For these claims, including those incurred but not reported, the City recognized a total liability of \$104.0 million at end of the year. In addition, the City's utilities recorded \$39.2 million in estimated environmental liabilities. At the end of 2003 City Light had \$45.1 million in liabilities related to its purchased power commitments. Other obligations were accrued compensated absences and other notes and contracts. The other notes and contracts included draws from the State's Public Works Trust Loan Program which are serviced with revenues from two participating City departments, one a governmental-type and another a business-type.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's 2004 budget was developed under the most challenging economic conditions since the early 1980s while still continuing a commitment to the four priorities of Mayor Greg Nickels: transportation, public safety, economic development, and healthy communities.

The 2004 budget represents the fourth year of difficult economic circumstances for the Seattle metropolitan area. The City budget has been significantly reduced in response to lower revenues, the West Coast power crisis, and other economic factors. These cuts have been made while preserving core services as much as possible. These services include public safety, human services, and basic infrastructure. Administration and lower priority areas have been reduced the most.

About 78 general government full-time equivalent positions were eliminated in the 2004 budget.

General Fund revenues were projected to grow at a rate of 3.5 percent. At 30 percent, property taxes continue to be the largest source of General Fund revenue. The retail sales tax is expected to contribute 19 percent followed by the business and occupation tax at about 18 percent and utility taxes at about 16 percent. In 2004 the City plans a \$13.0 million increase in the use of balances from other City funds. The majority of these balances, \$9.8 million, are available to the General Subfund on a one-time only basis since these reflect past cost savings, revenues over performance, or use of reserves.

Financial Contact

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about the report, please contact the City of Seattle, Department of Executive Administration, Accounting Services Division, P.O. Box 94669, Seattle, WA 98124-4669 (Telephone 206-386-9124).